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C O N F I D E N T I A L SECTION 01 OF 03 BRASILIA 001837

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SUBJECT: BRAZIL: OPPOSITION PSDB PRESIDENT'S COMMENTS ON
STATE OF PLAY OF THE PRESIDENTIAL ELECTION

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Classified By: POLITICAL COUNSELOR DENNIS HEARNE. REASONS: 1.4 (B)(D).

¶1. Summary. PSDB national president Tasso Jereissati told PolCouns that his party believes it has a window of another 10 to 15 days to diminish President Lula da Silva's commanding lead over PSDB contender Geraldo Alckmin, and move his candidacy to a second round of voting in late October. The PSDB remains resolute, but Alckmin, currently polling at 27 percent of voter intention versus Lula's steady 50 percent, must grow dramatically. Jereissati said Alckmin will now begin attacking the Lula government's record on corruption (but will make no new allegations) in TV and radio election programs, following a phase in which Alckmin used high-road rhetoric and focused on his policy achievements as Sao Paulo governor in order to positively establish his identity with voters nationwide. Lula's machine is formidable, Jereissati said, providing the president with a national stage and doling out subsidies to the poor at record levels in recent months, in an "audacious" effort to consolidate Lula's base among Brazil's millions of low-income voters. This, plus a generally good economic situation in the country, are boosting Lula, while the PSDB struggles to fund its national campaigns. End summary.

THE CRITICAL WINDOW -- NOW UNTIL MID-SEPTEMBER

¶2. (C) PolCounselor met privately on 30 August with Senator Tasso Jereissati, National President of the opposition PSDB party, and -- along with former President Fernando Henrique Cardoso and Minas Gerais Governor Aecio Neves -- one of the "troika" that sets policy for the party and its current campaign. Jereissati candidly acknowledged that PSDB candidate Geraldo Alckmin is facing a steep uphill fight against incumbent President Lula da Silva, and that current poll results -- if they solidify into firm trends -- would point toward a first round victory for Lula in October's election. However, Jereissati said the PSDB is nowhere near

throwing in the towel, and he believes the party has 10 to 15 days (until mid-September) to turn the election's course in a more positive direction for Alckmin. If Alckmin can grow several points in the next week or so, and if PSOL candidate Heloisa Helena -- currently garnering 10 percent of voter intention -- does not implode, then a second round remains a live possibility. (Note: A second round between the two finalists is required for the presidential election if no candidate gains 51 percent of the vote. It is widely viewed in Brazilian politics as "a whole new ball game," since voters focus more intently on two candidates only, and supporters from also-rans shift their allegiances to one of the final contenders. End note.) If Alckmin cannot turn the tide by mid-September, the PSDB national campaign will become demoralized and party candidates in states and municipalities will focus entirely on their own races, Jereissati said.

GOING NEGATIVE

13. (C) Jereissati said he and other party leaders made a decision early on to avoid direct attacks on Lula for corruption issues in the early phase of the television and radio campaign season, which is widely viewed as decisive in Brazilian elections and which began on 15 August. Despite mounting pressure and complaints in the press from leaders in the PSDB's coalition partner party, the PFL, Alckmin and the party had stayed firmly with a set strategy, which Jereissati outlined:

-- Use the first weeks of TV and radio time to establish Alckmin's identity and bonafides with voters as an effective and honest governor of the country's most advanced state, while largely avoiding harsh criticisms of Lula. This was essential, as Alckmin was little known among voters outside the country's southern and central states, and an unknown

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opponent would have been ill-advised to enter swinging against a president who is "bem querida" (well-loved) by so many Brazilians without first establishing positive recognition and credibility.

-- Monitor progress in increasing Alckmin's positive recognition level two weeks into the TV/radio season. Jereissati said PSDB-sponsored focus groups now clearly indicate Alckmin's positive rating is the highest among the candidates, though this has not translated thus far into voter intentions in the polls;

-- With Alckmin established positively on a national level with voters, gradually shift to tough attacks against Lula on the corruption issue, which is "Lula's critical vulnerability." This phase is starting now. Asked by PolCounselor whether the attacks on Lula's ethics would include any "September surprise" revelations, Jereissati paused but then replied no, saying "Lula's public record in corruption over the last year is more than enough to work with." (Comment: In PolCouns' view, Jereissati seemed to imply that the PSDB has some additional prejudicial material against Lula, but would refrain from using it. See para 7 below. End comment.)

RAGE AGAINST THE MACHINE

14. (C) Jereissati said the PSDB is "fighting hard against a formidable machine." Lula had used all of the resources of his office and position to campaign inappropriately before he declared his legal candidacy and the outset of the official election campaign season. Moreover, he had opened the sluices of federal money to secure and widen his base among low-income voters. Jereissati claimed that, since the start of June, the number of beneficiaries of the "Bolsa Familia" poverty subsidy program had expanded massively. Lula had

also increased subsidies to small farms in the last few months. These represent an "audacious use of federal programs for political gain," Jereissati added. The recent distribution of these goodies to poor voters, together with a generally improving economic situation have created a "feel good factor" that is boosting Lula, he said. Other voters are simply afraid of any change.

15. (C) Arrayed against Lula's juggernaut, the PSDB has struggled financially in the campaign, he said. Business interests that were expected to support Alckmin have proved hesitant to publicly commit funds to his campaign as his poll numbers have flat-lined, fearing reprisals should Lula win re-election -- "and they have every reason to be afraid," Jereissati opined. Since the PSDB will not resort to use of a "Caixa 2" (off-the-books illegal contributions) -- the kind of illicit financing linked to the past year's scandals -- the party's national campaign has been underfunded, he said.

16. (C) PolCouns asked Jereissati whether he thought Jose Serra -- Alckmin's early rival for the PSDB candidacy for the presidency and now front-runner in Sao Paulo's gubernatorial race -- would perhaps have had a better showing against Lula. Jereissati immediately replied in the negative. He said Serra would have faced the same powerful Lula machine and the same economic facts as those confronting Alckmin, and would also have been vulnerable to attacks on Serra's role as a minister in the Cardoso government, which Lula tirelessly denigrates in campaign speeches.

COMMENT

17. (C) Wealthy, urbane, autocratic in his management style, but centrist in his politics and pro-American, Jereissati is always candid in his conversations with PolCouns. He is an

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authoritative source for information regarding the PSDB party that he helped to found and currently leads nationally. In our view, the primary points of interest in this frank and confidential meeting were (1) Jereissati's assertion that,

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though beleaguered, the PSDB has not given up on the hope of getting Alckmin to a second round; If Jereissati thought the game was already lost, he would have found a way to say so; and (2) Confirmation that Alckmin will now attack Lula vigorously on corruption, but will not deploy any sensational new allegation against him. We have reason to believe such information exists (per septel reports) and may be known to the opposition, but it would appear such allegations will not play a role in the campaign, unless suddenly surfaced by the media. We have long thought that only a stunning "new fact" that can re-ignite public indignation about the past year's sorry history of PT-led corruption and focus that anger on Lula personally could change the course of this election in a dramatic way. In the absence of such a development, time may be running out for Alckmin.

Chicola